Co-Lending Policy

Hiranandani Financial Services Private Limited

Policy Control

Date	Approved By
26.07.2023	Board of Directors

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1. Introduction

Hiranandani Financial Services Private Limited ("HFSL"/ "the Company") is a Systemically Important, Non-Deposit Taking, Non-Banking Financial Company (NBFC-ND-SI) (Middle Layer) focused on providing secured and unsecured lending to the MSME segment in India.

2. Preamble

Reserve Bank of India ("RBI") has issued a circular dated November 05, 2020 on Co-Lending by Banks and NBFCs to Priority Sector (RBI/2020-21/63, FIDD.CO.Plan. BC.No.8/04.09.01/2020-21) ("Circular") superseding its earlier circular dated September 21, 2018 (RBI/2018-19/49, FIDD.CO.Plan.BC.08/04.09.01/2018-19) on co-origination by banks and NBFCs for lending to priority sectors.

This Board of Directors ("Board") of the Company has formulated a policy based on the above referred RBI circular policy and the same is adopted by the Company as Co-Lending Policy ("CLM Policy").

3. Objective

The Company shall engage with eligible banks, financial institutions and NBFCs ("Co-Lender/Co-Originating Bank") for exploring Co-Lending Model ("CLM") opportunities across its existing and new products / segments which qualify as per the Circular.

4. Master Agreement between HFSL and Co-Lender(s)

A Master Agreement incorporating terms and conditions of CLM arrangement between HFSL and Co-Lender(s) shall be entered into which shall inter-alia include but not be limited to specific product lines and areas of operation, provisions related to segregation of responsibilities as well as customer interface and protection issues, necessary clauses on representations and warranties etc.

The Master Agreement shall provide for the model of CLM arrangement between HFSL and Co-Lender(s) Bank in terms of clause 5 of the CLM Policy.

5. Engagement Models with Co-Lender(s) under co-lending

The Company shall, on the basis of discussion with eligible Co-Lender(s), enter into Master Agreement for implementing the model by either:

a. The Co-Lender(s) to mandatorily take their share of the individual loans as originated by HFSL in their books (herein after referred to as "**Model 1/ CLM 1**") or

b. The Co-Lender(s) retain the discretion to reject certain loans subject to its due diligence (herein after referred to as "**Model 2/ CLM 2**").

5.1 Model 1/CLM 1:

a. If the Master Agreement entails a prior, irrevocable commitment on the part of the Co-Lender(s) to take into its books its share of the individual loans as originated by the HFSL, the arrangement must comply with the extant guidelines on Managing Risks and Code of Conduct in Outsourcing of Financial Services by Banks issued vide RBI/2014-15/497/DBR.No.BP.BC.76/21.04.158/2014-15 dated March 11, 2015 and updated from time to time. In particular, the partner Co-Lender(s) and HFSL shall have to put in place suitable mechanisms for ex-ante due diligence by the Co-Lender(s) as the credit sanction process cannot be outsourced under the extant guidelines.

b. The Co-Lender(s) shall also be required to comply with the Master Directions - Know Your Customer (KYC) Direction, 2016, issued vide RBI/DBR/2015-16/18 Master Direction DBR.AML.BC.No.81/14.01.001/2015-16 dated February 25, 2016 and updated from time to time, which already permit regulated entities, at their option, to rely on customer due diligence done by a third party, subject to specified conditions.

5.2 Model 2/CLM 2:

If the Co-Lender(s) exercises its discretion regarding taking into its books the loans originated by HFSL per the Master Agreement, the arrangement will be akin to a direct assignment transaction. Accordingly, the taking over Co-Lender(s) shall ensure compliance with all the requirements in terms of Guidelines on Transactions Involving Transfer of Assets through Direct Assignment of Cash Flows and the Underlying Securities issued vide RBI/2011-12/540 DBOD.No.BP.BC-103/21.04.177/2011-12 dated May 07, 2012 and RBI//2012-13/170 DNBS. PD. No. 301/3.10.01/2012-13 August 21, 2012 respectively, as updated from time to time, with the exception of Minimum Holding Period (MHP) which shall not be applicable in such transactions undertaken in terms of this CLM. The MHP exemption shall be available only in cases where the prior agreement between the Co-Lender(s) and HFSL contains a back-to-back basis clause and complies with all other conditions stipulated in the guidelines for direct assignment.

6. Products for Co-lending

Lending under the CLM can be undertaken in all existing products of HFSL qualifying under the Circular. It can also be undertaken for any new product that is specifically developed for the purpose of CLM.

Detailed credit products, processes, programs etc. will be finalized and documented in the Master Agreement with the Co-Lender(s), on case-to-case basis, keeping in view the scope, customer related issues, other operational aspects, etc.

Further, HFSL and Co-Lender(s) shall ensure that the products are advanced to persons falling under priority sector.

7. Co-lending guidelines

The CLM arrangements are for the sector as eligible under the Circular from time to time. The features of the CLM policy are as mentioned below:

7.1 Board Approved Policy

HFSL, through this document, shall ensure the CLM Policy to comply with the Circular and any amendments made thereunder and explore partnerships with Co-Lender(s).

7.2 Sharing of Risks and Rewards

For all loans under CLM arrangements, HFSL will directly hold exposure as per the extant RBI Circular. HFSL shall hold minimum 20% of the credit risk (20 % share of the individual loans on their books) until maturity or less if prescribed under RBI circular. This may be increased subject to agreed appropriate terms and the nature of the mutual agreement with Co-Lender(s).

For all loans provided under CLM-1, HFSL shall further give an undertaking to the Co-Originating Bank that its contribution towards the loan amount is not funded out of borrowing from the Co-Originating Bank or any of its other group company.

7.3 Interest Rate & other charges

- Interest Rate - The ultimate borrower may be charged an all-inclusive interest rate as may be agreed upon by both the lenders conforming to the extant guidelines applicable to both.

- Fees and Expenses for other activities - Appropriation between the HFSL and Co-Lender(s) as may be mutually decided basis the Master Agreement between them.

- Servicing Fees / Any other commercial terms – As agreed mutually between HFSL and Co-Lender(s) and documented in the Master Agreement.

7.4 Know Your Customer

The Company and the Co-Lender(s) will adhere to applicable KYC/ AML regulatory guidelines, as prescribed by RBI and any other regulation as stipulated by RBI from time to time.

7.5 Credit norms

The Company and Co-Lender(s) shall mutually agree upon the various parameters and norms for assessment of credit applications based on the extant applicable RBI guidelines and respective internal policies.

The Company or the Co-Lender(s) shall not outsource the assessment of credit applications to any other third party without prior consent of the other party.

7.6 Borrower Loan documentation

The enabling disclosures of the Co-lending arrangement to be made in the loan agreement or related documents as mandated in the RBI circular.

7.7 Loan Sanction

Under the CLM arrangements, the process of sanction letter issuances and the loan agreement execution would be as mutually agreed between the Co-lender(s) and as per the Master Agreement between them.

7.8 Escrow Account

HFSL and Co-Lender(s) shall maintain each individual borrower's account for their respective exposures. However, all transactions (disbursements/ repayments) between HFSL and the Co-lender(s) relating to CLM shall be routed through an escrow account maintained with the banks, in order to avoid inter-mingling of funds. The Master Agreement shall clearly specify the manner of appropriation between the co-lenders.

7.9 Monitoring & Recovery

The Co-lender(s) shall establish a framework for monitoring and recovery of the loan as mutually agreed upon, which will be part of Master Agreement.

7.10 Security and Charge Creation

For CLM loans, the HFSL and Co-Lender(s) shall arrange for creation of security and charge as per the mutually agreed terms between them.

7.11 Provisioning/Reporting Requirement

Both HFSL and Co-lender(s) will follow the provisioning requirements including declaration of account as NPA, as per the applicable regulatory guidelines. HFSL shall also carry out the respective reporting requirements as per applicable law and regulations for its portion of lending.

7.12 Customer Service & Grievance Redressal

a. HFSL shall be the single point of interface for the customers and shall enter into a loan agreement with the borrower, which shall clearly contain the features of the arrangement and the roles and responsibilities of the Company and Co-Lender(s). The Company shall generate a single unified statement of the customer, through appropriate information sharing arrangements with the Lender.

b. The extant guidelines relating to customer service and fair practices code and the obligations enjoined upon the Co-Lender(s) and the Company shall be applicable *mutatis mutandis* in respect of loans given under the arrangement.

c. The Company shall be responsible for grievance redressal, suitably within 30 days, failing which the borrower would have the option to escalate the same with the concerned Banking Ombudsman/Ombudsman for NBFCs or the Customer Education and Protection Cell (CEPC) in RBI.

7.13 <u>Assignment</u>

Both HFSL and Co-Lender(s) can enter into a third-party loan assignment agreement with the mutual consent of the other party for assigning their share in the CLM Loan by complying with the extant RBI Circular.

7.14 <u>Change in Loan Limits</u>

Any change in CLM loan limit being offered under CLM arrangements will be done only with the mutual consent of HFSL and Co-Lender(s).

7.15 <u>Audit</u>

The loans under the CLM shall be included in the scope of internal audit, the Co-Lender(s) and the Company to ensure adherence to their respective internal guidelines, terms of the agreement and extant regulatory requirements.

7.16 <u>Business Continuity Plan</u>

A business continuity plan shall be formulated upon mutually agreed terms, to ensure uninterrupted service to the borrowers till repayment of the loans under the CLM arrangement, in the event of termination of Master Agreement.

8. <u>Review of Policy and Administration</u>

The Policy shall be subject to periodic review at once in two year in accordance with any regulatory or statutory requirement and any amendment or modification shall be with approval of the Board. Consequent upon any amendment in RBI guidelines/circulars, necessary changes in this Policy shall be incorporated and approved by the Board. Notwithstanding anything contained in this Policy, in case of any contradiction of the provision of this Policy with any existing legislation, rules, regulations, laws or modification thereof or enactment of a new applicable law, the provisions under such law, legislation, rule, regulation or enactment shall prevail over this Policy.